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NATIONAL ASSOCIATION OF BUSINESS ECONOMISTS
1987 ANNUAL MEETING MEMBERSHIP SURVEY

Presented by

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Economists expect moderate growth to continue in 1988, but also forecast higher inflation, according to the latest survey of NABE members. Real GNP is projected to advance 2.7%, following a 3.0% gain estimated for 1987. Nearly 70% of the economists report rising demand for the goods and services of their own firms, the highest percentage in over three years. Economists, however, now also project higher inflation, with consumer prices rising 4.8% in 1988 following an increase of 4.5% this year.

During this past year, real output growth has been in line with expectations, but inflation has been higher. The increase in inflation has produced a larger rise in interest rates than forecast a year ago, which, in turn, has contributed to a weaker-than-expected performance in housing, auto sales, and capital spending.

NABE members see large federal budget deficits persisting into 1989, but anticipate little change in monetary policy under the chairmanship of Alan Greenspan as compared with Paul Volcker. Opinions diverge widely over the appropriate policies to be pursued regarding the foreign-exchange value of the dollar.

Virtually all economists surveyed believe that a recession will occur before the end of 1990, and 90% of them think a downturn will take place before the end of 1989.

In addition to moderate growth and higher inflation, major features of the outlook for 1988 include:

-a significant reduction in the foreign-trade deficit
-higher capital spending
-slightly higher auto sales
-slightly lower housing starts
-stable unemployment
-a modest rise in interest rates

NABE Forecasting Record

NABE's track record in forecasting real GNP growth has been relatively good during the past two years. For 1986, members projected average real growth of 2.8%; the actual increase (after revisions) was 2.9%. The forecast error in 1985 was about one half of one percent. The median forecast was for a gain in average real GNP of 3.6%; the actual increase was 3.0%. During the past ten years, the average absolute error in forecasting real GNP growth has been only 1.2 percentage points, but the tendency for economists to extrapolate the past into the future is apparent in the annual GNP projections. When the economy speeds up, economists generally underestimate growth; when it slows down, they overestimate growth.

The worst year in the last decade for forecasting real economic activity involved the outlook for 1982, when economists failed to call the downturn. The median forecast for that year was an advance in average real GNP of 3.0%, while the final numbers show a decline of 2.5%.

An autoregressive-error process appears in inflation forecasts. As inflation accelerated in the late 1970s and into the first part of the 1980s, economists consistently underestimated the actual rate of price increase. Conversely, as inflation has decelerated from 1981 to 1986, economists overestimated inflation. For 1986, economists had projected an average increase in consumer prices of 4.1%. The plunge in energy prices resulted in an average rise of only 1.9%.

The worst year in the last decade for inflation forecasts was for 1983, when economists projected an average increase in consumer prices of 6.5%. The actual increase was only 3.2%. During the past ten years, a period in which inflation has ranged from less than 2% to nearly 10%, the average absolute forecast error has still been only 1.5 percentage points.

What will be the scorecard for 1987? If the current estimates of NABE members are close to the actual final numbers, the projection for real GNP will be very accurate. Last year, forecasters projected an average increase in real GNP of 2.7% for 1987; their current estimate is an advance of 2.6%. As inflation is again accelerating, however, they are once again underestimating the rise in prices. At last year's annual meeting, economists expected consumer prices to increase an average of 3.3% this year; now they estimate a climb of 3.9%. The actual increase of the CPI for the first eight months has been a 5.1% annual rate.

Near-Term Outlook

The latest survey indicates that business economists generally look for continued economic growth in 1988, albeit at a slightly more moderate pace than in the current year. The median forecast is for real GNP in 1987 to be up 3.0% on a fourth-quarter-to-fourth-quarter basis. This is little changed from the 2.9% forecast made a year ago. For 1988, economists expect a gain in real GNP of 2.7%.

Backing up their projections, nearly 70% of economists from both goods-producing and all nonfinancial businesses report rising demand for their companies' products and services during the past three months. This is the highest percentage since the spring of 1984. Only 6% to 7% report falling demand, also the smallest percentage since early 1984.

More economists indicate a pickup in capital spending in their firms. A total of 37% of both all nonfinancial corporate economists and economists representing goods-producing firms report higher plant and equipment outlays in real terms during the past three months. This is the highest percentage in about two years.

The economists polled report a significant increase in profit margins compared with the survey taken just last spring. Among all nonfinancial corporate economists, 48% said profit margins had improved, while 50% of economists from manufacturing and other goods-producing firms said profit margins had moved higher. In comparison, only about 40% of both groups had indicated improving profit margins when the previous survey was taken in the spring.

The source of the latest increase in profitability, however, apparently is neither higher prices nor lower wages. A larger proportion of the economists report stable wages than in the spring, while there was a slight decrease in the percentage of companies reporting higher prices. The improvement in profit margins would appear to derive from lower costs per unit, as companies move to larger and more efficient levels of production.

The business economists surveyed forecast both auto sales and housing starts to remain below their peaks of last year. In 1986, auto sales reached an all-time high of over 11.4 million units. In last year's survey, economists projected auto sales of 10.7 million units for 1987, but they have now scaled that projection down to 10.3 million cars. For 1988, business forecasters currently expect 10.5 million cars to be sold.

In 1986, housing starts slightly exceeded 1.8 million units. Last year, economists projected a similar 1.78 million total for 1987. The impact of tax reform and higher interest rates has caused economists to reduce the estimate for this year to 1.65 million units. For 1988, economists forecast some additional easing to a total of 1.6 million housing units.

Economists appear to base their expectations for continued economic growth in 1988 in significant part on a reduction in the foreign-trade balance. In dollar terms, the median estimate for the merchandise trade deficit is $155 billion for the current year, only slightly narrower than the $156 billion deficit of 1986. For next year, however, economists project a more significant reduction to $140 billion.

The economists surveyed also expect to see a step-up in capital spending during 1988, following two years of decline. Economists now estimate that plant and equipment spending in real terms will be down an average of 1.0% this year, less than the 2.3% decline of 1986, but in contrast to the 2.5% increase originally projected for this year. For 1988, however, the survey respondents indicate a projected gain of 3.4% in real capital outlays.

Caution appears in the economists' forecasts of unemployment. The median forecast is for the civilian unemployment rate to average 6.0% in the fourth quarter of 1987. This would represent no change from the jobless rate existing when this year's survey was taken. The economists also forecast a 6.0% unemployment rate for the end of 1988. The jobless rate has declined much more quickly than had been anticipated. In contrast to the 6.0% jobless rate now projected for the end of 1987, a year ago the median forecast was for an unemployment rate of nearly a full percentage point higher at 6.9%.

Pessimism has increased regarding the outlook for inflation. Economists correctly assessed last's years small increase in consumer prices as an aberration, largely due to energy prices. On a fourth-quarter-to-fourth-quarter basis, consumer prices increased only 1.3% in 1986. For last year's annual meeting, economists projected a rise in inflation to 3.7% for 1987. During the past year, they have steadily been revising upward this forecast and now believe that prices will increase 4.5% on a fourth-quarter-to-fourth-quarter basis. For 1988, the economists expect a further rise in inflation, with an increase in consumer prices of 4.8%.

For the election year of 1988, forecasts by NABE members imply that the "misery index"--the sum of the average unemployment rate and the average inflation rate--will equal slightly less than 11%. This will be comprised of a 6% average jobless rate and an average increase in consumer prices of 4.7%. In the election years since 1960, this index has ranged from a low of about 6% in 1964 (the retention of an incumbent administration, with the election of President Johnson) to over 20% in 1980 (defeat of the incumbent administration of President Carter).

With respect to interest rates, the economists surveyed expect only a relatively modest rise during the next twelve to fifteen months. A year ago, the median forecast was a prime rate of 8.0% at the end of this year. The current median estimate is a prime rate of 8.5%. However, many of the survey participants may have submitted their responses prior

to the discount rate and prime rate increases on September 4th of this year. The median forecast of the bank prime rate on June 30, 1988 is 9.0%, with a prime rate forecast of 9.1% for December 31, 1988.

Longer-Term Views

Most economists believe that this expansion, while the longest in peacetime history, will not reach its seventh birthday. A year ago, nearly 30% of the economists thought we would be in recession by the time of this year's annual meeting in New Orleans. Now, only a few economists expect a downturn by the end of 1987. Nevertheless, about 30% of economists continue to expect a recession by the end of 1988, and another 56% anticipate a downturn in 1989. All except one economist surveyed looks for an economic decline by the close of 1990 and that person expects an ending of the expansion early in 1991.

When asked about the possible cause of a recession, economists refer to a variety of reasons. The most frequently mentioned involves high inflation and high interest rates. High "real" interest rates, too little new investment in the U.S. economy, and slow long-term productivity growth comprise a second commonly cited set of forces. Many economists can point to no particular reason, but are just nervous about the the old age of the present expansion. Others indicate the risk of sluggish U.S. export growth caused by slow growth abroad, while others expect a cutback in monetary growth to trigger the next economic downturn.

Regarding the future trend of the foreign-exchange value of the dollar, the forecasts of economists are mixed. The majority (55%) project a further decline of between 10% and 30% in the trade-weighted value of the dollar between the present time and the end of 1991. A few expect a drop as steep as 30%-50%. In contrast, about 12% of the economists look for the dollar to hold steady, and close to 30% believe an appreciation of 10% to 30% in the dollar's value will take place over the next four years.

Policy Views

Economists continue to be relatively pessimistic about success in reducing the federal budget deficit. Over two fifths of them did correctly expect Congress to restore the automatic spending-cut process of Gramm-Rudman-Hollings, but with a slower timetable for deficit reduction. Higher-than-anticipated revenues, largely due to tax reform, have caused economists to reduce their estimate of the deficit for fiscal 1987 to $165 billion from the forecast of $186 billion made a year ago. However, the median estimate of the deficit for fiscal 1988 remains unchanged at $170 billion, while the projection for fiscal 1989 is for a deficit of $164 billion.

Economists offer a number of recommendations to reduce the deficit. The largest number would like to see further cuts in defense spending, while sizable support is also expressed for raising excise ("sin") taxes and for reducing social spending. An increase or new levy of gasoline/energy taxes also receives relatively strong support. Less enthusiasm is voiced for a value-added tax or for user fees and asset sales. Only a small (17%) number of economists advocate an indefinite delay in the final round of personal tax-rate cuts initiated under last year's tax reform law. Just 10% endorse an income-tax surcharge.

Questioned about Federal Reserve policy, three fourths of the economists see no significant change in monetary policy under the chairmanship of Alan Greenspan during the next four years compared with policies which might have been followed under Paul Volcker. If differences do arise, the largest number of economists believe policies will involve a greater willingness to defer to White House influence.

Economists are divided regarding what policy steps, if any, should be taken with respect to foreign-exchange rates. When asked if it would be "desirable" for the dollar to fall further, many economists (44%) believe it would. Many of them think another 5%-10% decline in the dollar would help to restore the competitiveness of U.S. manufactured products. More than a quarter of the economists believe, however, that the dollar's decline has already been sufficient. The rest of the survey respondents (almost 30%) say that the question of "desirability" of a further dollar decline is inappropriate, believing that only the marketplace can determine the "correct" value of the dollar.

Economists were questioned on their views of actions in April and May of this year to support the dollar. Almost 30% supported both the intervention in foreign-exchange markets and the tightening of reserve growth by the Federal Reserve. About 13% of the economists would have supported intervention if it had been "sterilized"--that is, not also allowed to lead to a tightening in U.S. domestic monetary policy. In contrast, nearly one third opposed the intervention efforts, but endorsed the move towards monetary restraint. The remaining one fourth of the economists objected to both the intervention in foreign-exchange markets and the tightening in domestic Federal Reserve policy.

Were the dollar to come under new massive downward pressure, the divergence in policy advice from economists is substantial. Forty-five percent of them believe no policy action should be taken. In contrast, 30% would support a tightening in U.S. monetary policy, involving a slower growth of bank reserves and the monetary aggregates. About 9% would call for direct central bank intervention, while 16% believe a meeting of the G-7 finance ministers and central bankers should be convened.

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TABLE 1.

Conditions In Your Company During The Past Three Months

(Percentages of Those Responding)

Subject	SURVEY DATE	TOTAL ALL SECTORS RISING	SAME	FALLING	GOODS-PRODUCING RISING	SAME	FALLING
Demand (Unit Volume)	3Q87	68%	25%	7%	68%	26%	6%
	2Q87	54	32	14	55	33	12
	1Q87	49	36	15	49	31	20
	4Q86	52	30	18	49	26	25
	3Q86	51	29	20	48	29	23
	2Q86	49	32	19	53	30	17
	1Q86	53	32	15	47	39	14
	4Q85	39	45	16	39	47	14
	3Q85	44	33	23	34	42	24
	2Q85	41	35	24	43	32	25
	1Q85	50	30	20	45	32	23
	4Q84	47	35	18	42	39	19
	3Q84	57	32	11	53	36	11
	2Q84	75	20	5	81	15	4
Employ-ment	3Q87	25%	51%	24%	34%	51%	15%
	2Q87	15	48	37	20	44	36
	1Q87	17	47	36	24	38	38
	4Q86	13	41	46	14	37	49
	3Q86	13	48	39	15	46	39
	2Q86	19	47	34	19	47	34
	1Q86	18	58	24	19	61	20
	4Q85	12	52	36	13	51	37
	3Q85	16	54	30	16	48	36
	2Q85	22	56	22	23	52	25
	1Q85	23	55	22	24	50	26
	4Q84	21	60	19	23	54	23
	3Q84	26	59	15	30	59	11
	2Q84	36	55	9	44	50	6
Inven-tories (Unit Volume)	3Q87	27%	40%	33%	30%	33%	37%
	2Q87	33	42	25	37	40	23
	1Q87	20	42	38	23	40	37
	4Q86	17	39	44	18	33	48
	3Q86	23	52	25	25	50	25
	2Q86	29	42	29	32	40	28
	1Q86	26	39	35	29	30	41
	4Q85	20	36	44	21	30	49
	3Q85	25	38	37	29	33	38
	2Q85	34	41	25	39	34	27
	1Q85	23	42	35	29	37	34
	4Q84	33	46	21	40	37	23
	3Q84	35	40	25	40	39	21
	2Q84	51	37	13	49	38	13

Subject	SURVEY DATE	TOTAL ALL SECTORS RISING	SAME	FALLING	GOODS-PRODUCING RISING	SAME	FALLING
	3Q87	37%	48%	15%	37%	46%	17%
	2Q87	30	44	26	24	41	35
	1Q87	27	46	27	25	44	31
	4Q86	23	45	32	20	40	40
Capital	3Q86	18	49	33	17	47	36
Investment	2Q86	23	42	35	25	43	32
Outlays	1Q86	24	50	26	29	50	21
(Constant	4Q85	28	47	25	27	49	24
Dollars)	3Q85	31	48	21	30	47	23
	2Q85	39	43	18	41	44	15
	1Q85	39	49	12	45	42	13
	4Q84	52	36	12	59	31	10
	3Q84	50	41	9	59	37	4
	2Q84	43	52	6	45	53	2
	3Q87	48%	34%	18%	50%	34%	16%
	2Q87	41	27	32	40	34	26
	1Q87	41	25	34	48	21	31
	4Q86	34	29	37	34	27	39
	3Q86	24	29	47	24	31	45
	2Q86	34	33	33	41	27	32
Profit	1Q86	21	41	38	24	43	33
Margins	4Q85	26	40	34	24	34	42
	3Q85	22	31	47	22	29	49
	2Q85	25	35	40	26	32	42
	1Q85	27	38	35	26	38	36
	4Q84	41	33	26	33	36	31
	3Q84	34	52	14	27	61	12
	2Q84	43	37	20	70	20	10
	3Q87	28%	47%	25%	35%	43%	22%
	2Q87	31	47	23	36	48	16
	1Q87	35	42	23	46	35	19
	4Q86	18	48	34	24	44	33
	3Q86	18	42	40	24	45	31
Prices	2Q86	23	44	33	30	43	27
You	1Q86	14	56	30	16	51	33
Charge	4Q85	15	59	26	16	57	28
	3Q85	15	57	29	14	57	30
	2Q85	22	58	20	23	58	19
	1Q85	25	48	27	25	43	32
	4Q84	25	52	23	22	47	31
	3Q84	18	60	22	14	62	24
	2Q84	50	45	5	36	52	12

Subject	SURVEY DATE	TOTAL ALL SECTORS			GOODS-PRODUCING		
		RISING	SAME	FALLING	RISING	SAME	FALLING
	3Q87	28%	69%	3%	30%	68%	2%
	2Q87	35	62	3	33	65	2
	1Q87	37	59	4	39	59	2
	4Q86	32	64	4	29	64	7
	3Q86	25	70	5	16	77	7
Wages	2Q86	40	57	3	36	60	4
You	1Q86	48	49	3	47	52	1
Pay	4Q85	30	65	5	32	61	7
	3Q85	34	63	3	28	68	4
	2Q85	40	57	3	38	59	3
	1Q85	39	59	2	42	54	4
	4Q84	34	63	3	46	54	0
	3Q84	37	62	1	34	66	0
	2Q84	41	58	2	38	62	0

TABLE 2.

A History of NABE Forecasts

(Forecasts Made the Preceding Summer)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	Average Absolute Error
Real GNP Growth - Annual Average											
Forecast	5.1	4.5	2.5	0.1	0.7	3.0	2.9	4.5	3.6	2.8	
Actual	4.7	5.3	2.5	-0.2	1.9	-2.5	3.6	6.8	3.0	2.9	
Difference	0.4	-0.8	0.0	0.3	-1.2	5.5	-0.7	-2.3	0.6	-0.1	1.2
Inflation -- Annual Average *											
Forecast	6.0	6.2	7.3	7.8	8.9	8.3	6.5	5.0	5.0	4.1	
Actual	6.7	7.3	8.9	9.0	9.7	6.4	3.2	4.3	3.6	1.9	
Difference	-0.7	-1.1	-1.6	-1.2	-0.8	1.9	3.3	0.7	1.4	2.2	1.5

*GNP Deflator through 1982; CPI-U 1983-1986

TABLE 3.

General Business Outlook

(Median Estimates)

	Annual Meeting	Survey Date			Annual Meeting
	3Q87	2Q87	1Q87	4Q86	3Q86
Real GNP (% Change)					
4Q86 to 4Q87	3.0%	2.9%	2.8%	2.8%	2.9%
4Q87 to 4Q88	2.7				
CPI-U (% Change)					
4Q86 to 4Q87	4.5%	4.3%	4.0%	3.8%	3.7%
4Q87 to 4Q88	4.8				
Civilian Unemployment Rate					
4Q87	6.0%	6.6%	6.8%	6.9%	6.9%
4Q88	6.0				
Prime Rate					
31-Dec-87	8.5%	8.0%	7.5%	7.6%	8.0%
30-Jun-88	9.0				
31-Dec-88	9.1				
Housing Starts (Millions of units)					
1987 Total	1.65	1.75	1.70	1.72	1.78
1988 Total	1.60	1.70			
New Car Sales (Millions of units)					
1987 Total	10.3	10.1	10.5	10.6	10.7
1988 Total	10.5	10.3			

	Annual Meeting	Survey Date			Annual Meeting
	3Q87	2Q87	1Q87	4Q86	3Q86
Real Business Fixed Investment (% Change)					
4Q86 to 4Q87	1.0%	0.9%	1.1%	2.0%	3.4%
1986 to 1987	-1.0	-0.5	0.0	0.9	2.5
1987 to 1988	3.4	2.5			
Budget Deficit ($ Billions)					
FY '87	$165	$190	$189	$195	$186
FY '88	170	170	165	180	170
FY '89	164	160	150	170	
Corporate Profits, After-Tax (% Change)					
1986 to 1987	5.0%	5.0%	5.0%	6.6%	4.0%
1987 to 1988	4.0	5.0			

TABLE 4.

General Business Outlook By Industry Of Respondent

(Median Estimates)

	Overall	Goods-Producing	Wholesale or Retail Trade	Utilities, Transport. Comm.	Nonbank Finance	Comm'l Banking	Academic	Government	Consulting
Real GNP % Change 4Q87 to 4Q88	2.7%	2.8%	3.3%	3.0%	3.0%	3.0%	2.2%	2.5%	2.3%
CPI % Change 4Q87 to 4Q88	4.8%	4.6%	4.4%	4.5%	5.0%	5.1%	5.1%	4.5%	5.0%
Unemployment Rate 1988 Average	6.0%	6.0%	5.8%	6.1%	5.9%	6.0%	6.1%	6.1%	6.3%
Prime Rate									
Dec-87	8.5	8.5	8.9	8.5	8.8	8.5	8.5	8.5	8.5
Jun-88	9.0	8.9	9.3	9.0	9.0	9.0	9.0	8.8	9.0
Dec-88	9.1	9.0	9.5	8.9	9.2	9.5	8.8	9.0	9.1
Housing Starts (millions) 1988 Total	1.60	1.62	1.59	1.61	1.62	1.60	1.58	1.50	1.60
New Car Sales including imports (millions) 1988 Total	10.5	10.5	10.7	10.5	10.4	10.5	10.1	10.3	10.3
Real Business Fixed Investment % Change 1987 to 1988	3.4%	3.4%	6.6%	3.4%	4.1%	4.8%	1.9%	2.0%	2.5%
Corporate Profits % Change 1987 to 1988	4.0%	3.6%	30.7%	9.0%	8.0%	7.0%	2.1%	0.1%	2.6%
Budget Deficit (billions) FY 1988	$170	$160	$159	$170	$170	$177	$160	$160	$180

TABLE 5.

Cyclical Peak and Other Issues

1. In what year do you expect the next recession to begin?

Survey Date	1987	1988	1989	1990 or later
3Q87	4%	30%	56%	10%
2Q87	11	32	48	9
1Q87	17	34	40	8
4Q86	31	30	31	7
3Q86	30	32	24	6
2Q86	47	29	13	4

3Q87 Survey (percent)

1987			1988				1989				1990				1991
Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
1	1	2	4	5	8	13	15	22	12	7	2	6	1	n.a.	1

2. What do you expect will be the principal cause of the next recession?*

High inflation, high interest rates	18%
High "real" interest rates, too little new investment in U.S. economy, slow long-term productivity growth	17
"Old age" of the current expansion; no particular reason	14
Too slow economic growth elsewhere in the industrialized world, sluggish U.S. export growth	14
Cutback in monetary growth	11
Financial crisis brought on by high federal budget deficits	8
Fiscal restraint brought on by attempts to reduce high federal budget deficits	8
Crisis in the Persian Gulf, oil price shock #3	1
None of the above; a recession is already under way	3
Other	6

* Multiple responses

TABLE 6.

NABE Forecast Compared to OMB and CBO

	1987			1988		
	OMB	CBO	NABE	OMB	CBO	NABE
Real GNP (% Change 4Q to 4Q)	3.2%	3.1%	3.0%	3.5%	2.6%	2.7%
CPI-U (% Change 4Q to 4Q)	4.7%*	5.1%*	4.5%	4.4%*	5.2%*	4.8%
Unemployment Rate-Civilian (Year Average)	6.3%	6.3%	6.2%	6.0%	6.1%	6.0%
Budget Deficit - Fiscal Year (Billions)	$158	$157	$165	$161**	$183**	$170

* CPI-W
** Current services

OMB = Office of Management and Budget
CBO = Congressional Budget Office

Sources: Mid-Session Review of the 1988 Budget, OMB, August 1987.
The Economic and Budget Outlook: An Update, CBO, August 1987.
NABE Membership Survey, August/September, 1987.

TABLE 7.

Economic Policy Assessment

1. In my judgment, recent monetary policy actions have been...?

Too stimulative	8%
About right	75
Too restrictive	12
Undecided	5

2. Do you expect Congress to vote to restore the automatic spending cut process of Gramm-Rudman-Hollings, but with a slower timetable for deficit reduction?

Yes	42%
No	44
No opinion	14

3. Do you think the Federal Reserve Board's monetary policies under Chairman Alan Greenspan will be significantly different during the next 4 years than they would have been if Paul Volcker had served another 4-year term?

Yes	21%
No	75
No opinion	4

4. Regardless of your response to "3", if there are differences, what do you expect them to be?*

More effective, long-run resistance to inflationary forces	16%
More attention to monetary targeting, less judgmental approach	14
Less willingness to restrain policy in order to combat inflation	23
Less concern about a lower dollar	37
More willingness to defer to White House influence on the setting of monetary policy	46

5. What deficit reduction steps would you recommend to Congress?*

Cut defense spending further	65%
Cut social spending further	48
Raise excise ("sin") taxes	49
Impose or raise gasoline/energy taxes	44
Impose surcharge tax on personal income	10
Delay indefinitely the final personal income tax cuts	17
User fees and asset sales	26
Institute a value-added tax	28

*Multiple responses

TABLE 8.

Exchange Rates and the Trade Deficit

1. Using the FRB index covering 10 currencies and using world-trade weights, the dollar's decline over the past two years has been about 30%. Since year-end 1986 the drop (as of the end of July) has been about 4%. Meanwhile, the trade deficit appears to have begun to narrow. Do you think it would be desirable for the dollar's value to decline further?

Yes	44%
A further 5-10% across-the-board decline would help restore the competitiveness of U.S. mfrs.	25
A further decline would be most helpful against those countries that maintain high barriers to imports of American goods.	4
A further decline would be most helpful against the currencies of the Newly Industrializing Countries where the depreciation to date has been very small.	16
No	26%
Inappropriate Question; the market should determine the value of the dollar.	30%

2. What should be done to support the dollar if it comes under massive downward pressure on foreign exchange markets?

Increase direct central bank intervention	10%
Tighten domestic monetary policy	30
Reconvene a meeting of the G-7 finance ministers/central banks	16
Nothing	44

3. What international policies or actions would be most helpful in improving the overseas business of your firm?*

Faster economic growth overseas	28%
Lower international value of the dollar	9
Market-opening actions taken administratively by other countries	19
Lower federal budget deficit	10
Lower dollar against currencies of Newly Industrializing Countries	6
More U.S. aid to spur exports (e.g., subsidies, financing incentives)	8
Other	2
Not applicable, company doesn't export	35

4. What changes in the debt status of the less developed countries have you perceived during the past 3 months?

Improved debt position	12%
Worsened debt position	28
No significant change	44
Don't know	17

5. In April-May, 1987, when the dollar was under serious selling pressure on world foreign exchange markets, substantial intervention was undertaken by principal central banks (to buy dollars) and the Federal Reserve sharply reduced the growth of bank reserves (restrictive domestic policy). Do you support these actions?

Yes, agree with both intervention and restrictive domestic policy	29%
Yes/No, intervention is fine, but tightening U.S. domestic policy was not a good idea.	13
No/Yes, intervention should not have been done, but tightening U.S. domestic policy was a good idea.	32
No, neither intervention nor tighter policy should have been implemented.	25

6. On the basis of your own policy mix assumptions, what change in the international value of the dollar, calculated on a trade-weighted basis, do you expect between now and the end of 1991.

Up over 30%	1%
Up 10-30%	29
None (i.e., no change)	12
Down 10-30%	55
Down 30-50%	4

7. Aside from exports, has your company seen any other effects of the lower international value of the dollar?*

Yes	64%
Reduced competitive pressure from imports	36
Increased costs of imported materials	29
Greater ability to penetrate foreign markets	22
Increased overseas earnings	19
Greater ability in U.S. to increase selling prices	17
Company has received offers-to-buy from foreign companies/ investors	1
No	12%
Foreign suppliers have held U.S. selling prices essentially constant by absorbing foreign exchange cost increases in narrower profit margins	10
Dollar has not declined against currencies of countries that are our principal suppliers or customers	6
Other responses	32%
Not applicable: Company does not import or export	26
Other	6

*Multiple responses

TABLE 9.

A History of NABE Forecasts of the Trade-Weighted Dollar's Value

(Forecasts Made the Preceding Summer)

	1983	1984	1985	1986	1987
Down sharply	7%	12%	n.a.	32%	12%
Down moderately	50	50	n.a.	58	66
Unchanged	26	21	n.a.	4	5
Up moderately	17	16	n.a.	5	15
Up sharply	0	1	n.a.	1	2
No response	--	--	n.a.	--	--
*ACTUAL	7.4%	10.1%	-1.8%	-22.2%	-9.0%e

* Calculated using Federal Reserve's Value of the Trade-Weighted Dollar; 3Q to 3Q.

TABLE 10.

NABE Median Long-Run Forecast

Historical Record

Projected Real GNP Growth

Years Forecast	Projected Rate		Actual Rate
1975 (74-79)	3.7%	1974-79	3.2%
1976 (75-80)	4.1	1975-80	3.4
1977 (76-81)	3.7	1976-81	2.8
1978 (77-82)	3.4	1977-82	1.4
1979 (78-83)	2.7	1978-83	1.0
1980 (79-84)	3.0	1979-84	1.9
1981 (80-85)	3.2	1980-85	2.5
1982 (81-86)	2.6	1981-86	2.7
1983 (82-87)	2.8	1982-87e	3.8
1984 (83-88)	3.3		
1985 (84-89)	3.0		
1986 (85-90)	2.9		
1987 (86-91)	2.5		

Projected Inflation Rate*

1975 (74-79)	6.4%	1974-79	7.8%
1976 (75-80)	5.8	1975-80	7.6
1977 (76-81)	6.0	1976-81	8.3
1978 (77-82)	6.5	1977-82	8.2
1979 (78-83)	7.6	1978-83	7.6
1980 (79-84)	8.2	1979-84	6.5
1981 (80-85)	7.3	1980-85	5.4
1982 (81-86)	6.6	1981-86	3.8
1983 (82-87)	6.0	1982-87e	3.4
1984 (83-88)	5.5		
1985 (84-89)	4.7		
1986 (85-90)	4.0		
1987 (86-91)	4.6		

Projected Productivity Growth (Nonfarm Business Sector)

1979 (78-83)	1.2%	1978-83	0.5%
1980 (79-84)	n.a.	1979-84	1.0
1981 (80-85)	1.4	1980-85	1.4
1982 (81-86)	1.5	1981-86	1.5
1983 (82-87)	1.8		
1984 (83-88)	2.3		
1985 (84-89)	2.0		
1986 (85-90)	1.7		
1987 (86-91)	1.5		

*GNP Deflator for 1975-1981; CPI-All Urban Consumers for 1982-1987.

TABLE 11.

A History of NABE Recession Forecasts

(Responses to the question: "When Will the Next Business Cycle Downturn Begin?")

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Current Year	[illegible]%	96%	n.a.	25%	0%	1%	8%	10%	8%	4%
Next Year	59	3	n.a.	7	10	8	44	42	30	30
Year After Next	34	1	n.a.	16	17	41	43	35	32	56
More Than Two Years From Now	n.a.	n.a.	n.a.	47	73	50	4	13	30	10
No Opinion/ No Response	0	0	n.a.	5	0	0	1	0	0	0

TABLE 12.
SUMMARY OF NABE MEDIAN FORECASTS

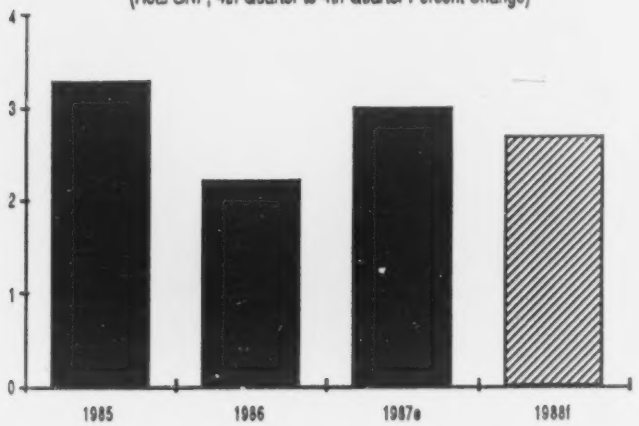
	1986	1987		1988
	Actual	Aug 86 Survey	Aug 87 Survey	Aug 87 Survey
Fourth quarter				
Real GNP, percent change over prior year	2.2%	2.9%	3.0%	2.7%
Consumer Price Index, percent change over prior year	1.3	3.7	4.5	4.8
Unemployment Rate, civilian	6.8	6.9	6.0	6.0
Bank Prime Rate, December 31	7.5	8.0	8.5	9.1
Business Fixed Investment, real percent change over prior year	-4.7	3.4	1.0	3.0

	1986	1987		1988
	Actual	Aug 86 Survey	Aug 87 Survey	Aug 87 Survey
Annual Totals				
Real GNP, percent change	2.9%	2.7%	2.6%	2.7%
Consumer Price Index, percent change	1.9	3.3	3.9	4.7
Unemployment rate, civilian, average	7.0	7.0	6.2	6.0
Business Fixed Investment, real percent change	-2.3	2.5	-1.0	3.4
Corporate After-Tax Profits, percent change	-1.0	4.0	5.0	4.0
Auto Sales, millions	11.45	10.7	10.3	10.5
Housing Starts, millions	1.81	1.78	1.65	1.60
Foreign Trade Balance, billions	-$156	N/A	-$155	-$140
Federal Budget Deficit, fiscal year in billions	-$221	-$186	-$165	-$170

N/A - not available

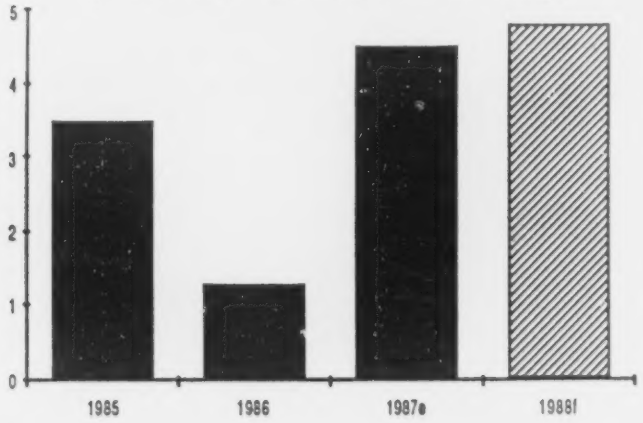
ECONOMISTS FORECAST CONTINUED GROWTH

(Real GNP, 4th-Quarter-to-4th-Quarter Percent Change)



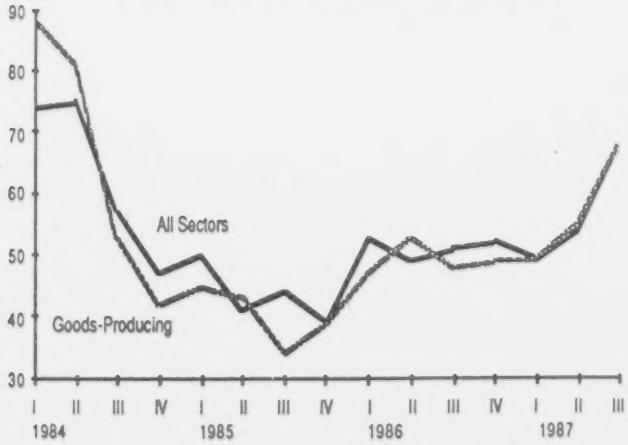
ECONOMISTS EXPECT HIGHER INFLATION

(Consumer Prices, 4th-Quarter-to-4th-Quarter Percent Change)



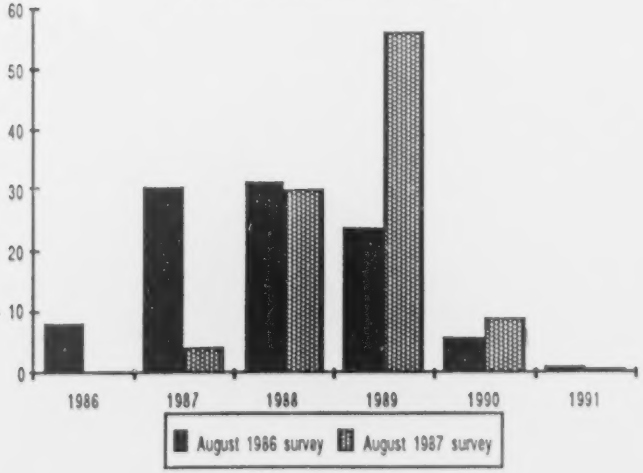
ECONOMISTS REPORT IMPROVING DEMAND

(Percent Indicating Higher Demand in their Own Firms)



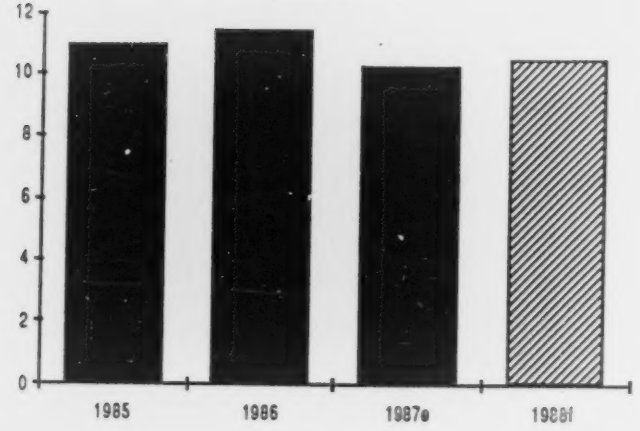
NEXT RECESSION

(Percent of Economists Forecasting)



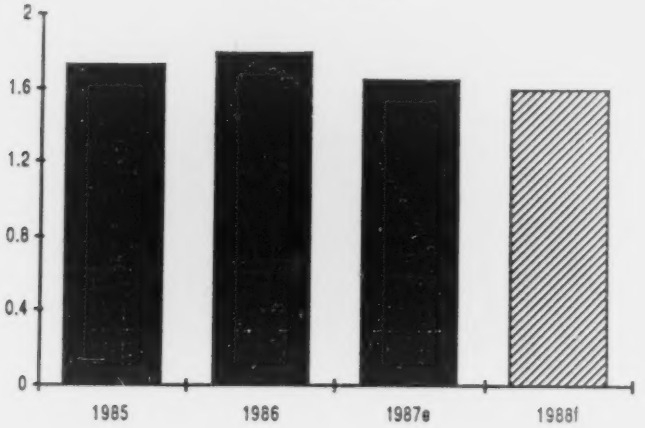
MODERATE AUTO SALES

(Millions of Units)



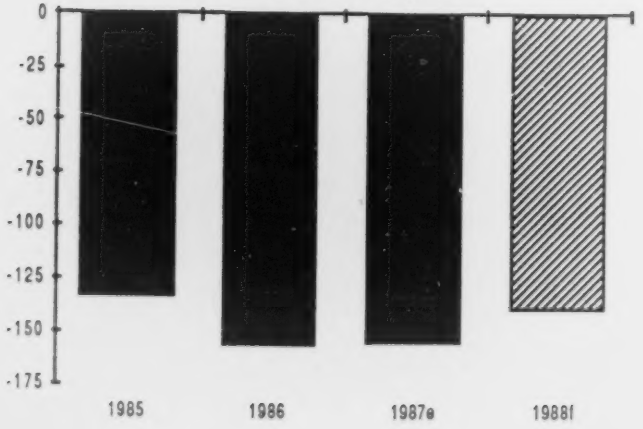
LOWER HOUSING STARTS

(Millions of Units)



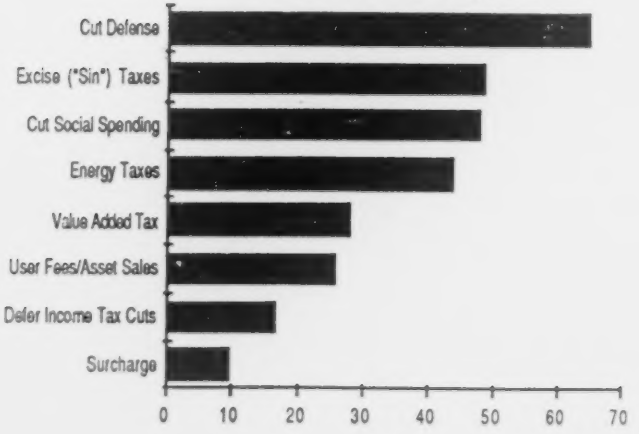
SMALLER FOREIGN TRADE DEFICIT

(Billions of Dollars)

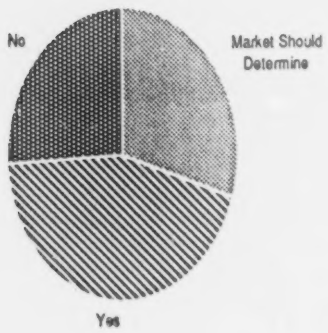


DEFICIT REDUCTION STEPS

(Percent of Economists Supporting)



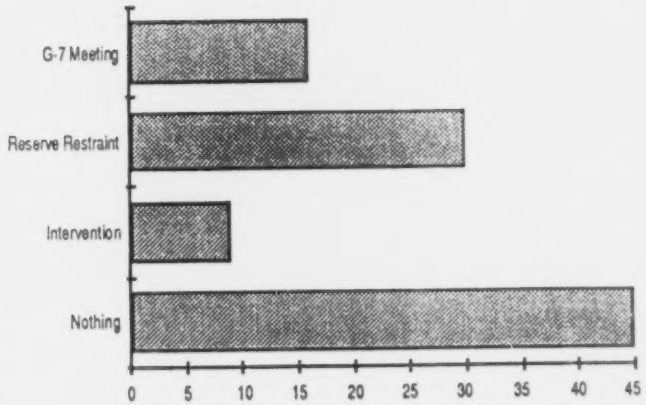
FURTHER DOLLAR DECLINE DESIRABLE?
(Percent of Economists)



VIEWS ON DOLLAR SUPPORT IN APRIL-MAY,1987

Intervention		Reserve Restraint	% of Economists
Yes	and	Yes	29%
Yes	and	No	13
No	and	Yes	33
No	and	No	25

ACTIONS IF DOLLAR COMES UNDER NEW DOWNWARD PRESSURE
(Percent of Economists Endorsing)



FORECASTS OF TRADE-WEIGHTED DOLLAR
(Percent Change Aug. 1987 to Dec. 1991)